

FOR COMPUTERWORLD

MAY/JUNE 2001
VOL. 1 NO. 2

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AXED!

**Smart companies are saving millions by
killing off high-risk IT projects. p. 16**

One day you wake up and realize that your e-commerce site is, well, all your commerce.

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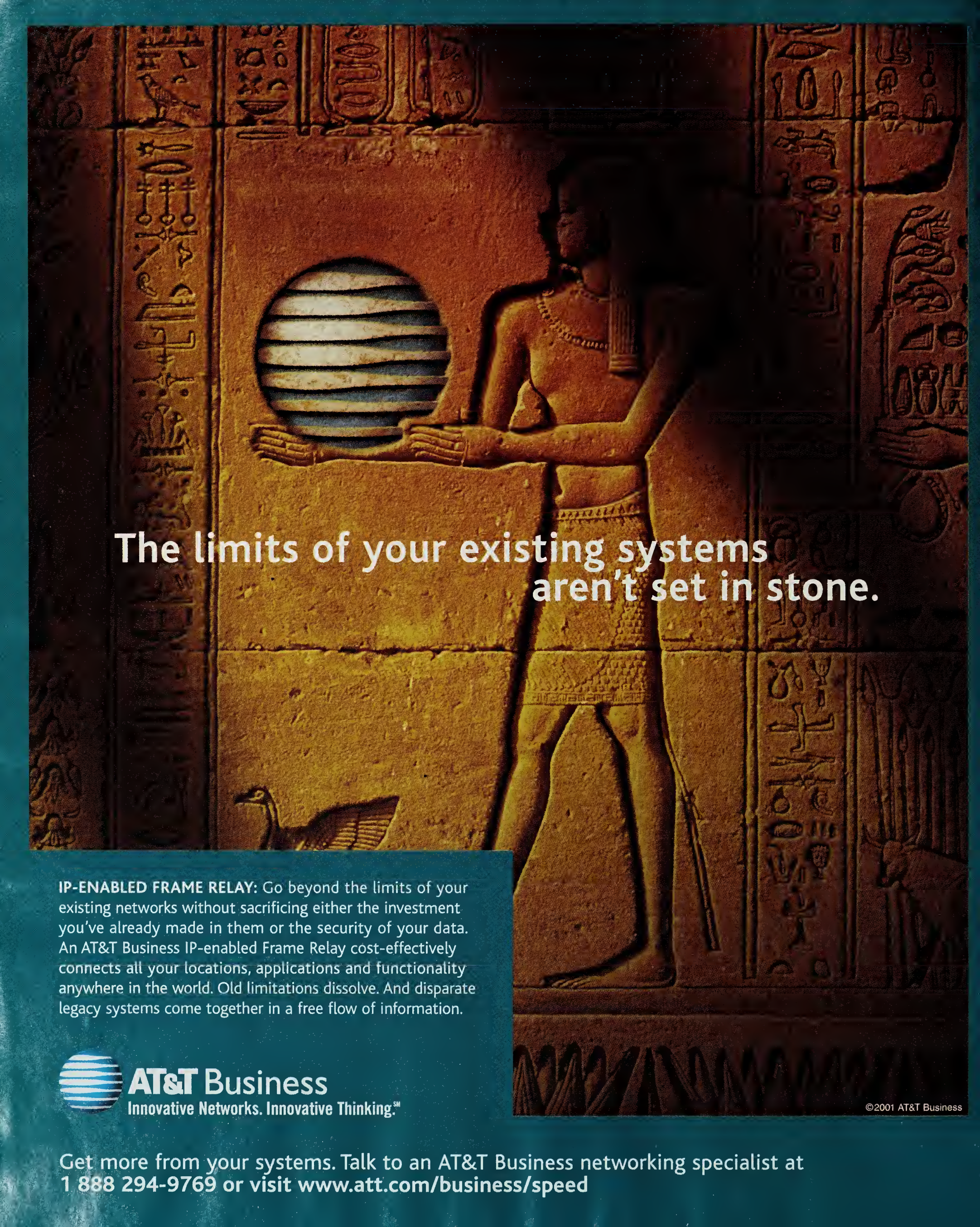
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Mark Tammesen, Vice President, Information Technology
Eaton Systems



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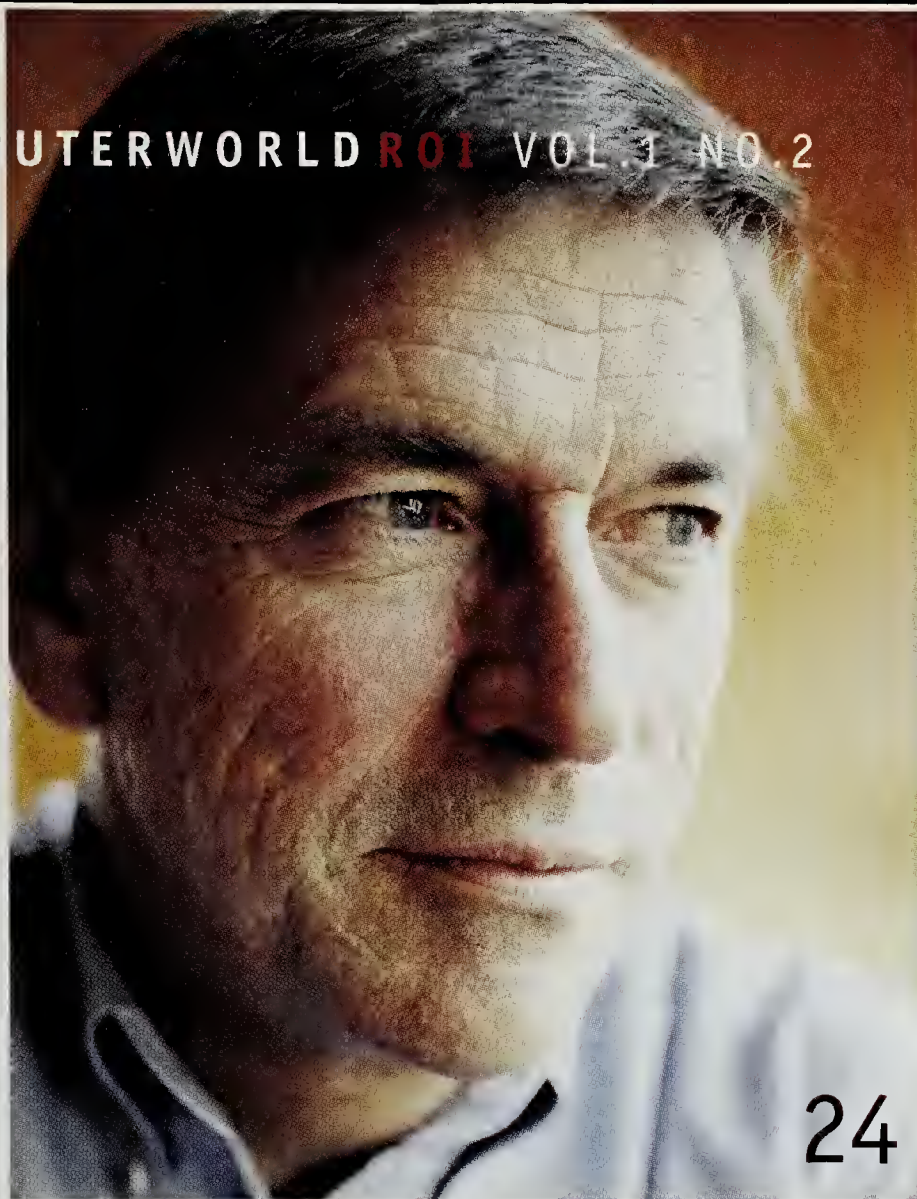


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risk & reward

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As many as 80% of technology projects cost more than they return. Companies are saving millions by using portfolio management techniques to identify and ax unprofitable projects before they're in the red. BY ROBERT L. SCHEIER

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As CEO of The Research Board, Peter Sole commands the attention of 100 of the most influential CIOs. In an exclusive interview, Sole talks about how these leaders are shifting from cost savings to speed and agility as key metrics for measuring business value. BY MARYFRAN JOHNSON

risk & reward on the web

A Watched Worker

Fear of six-figure lawsuits has companies racing to monitor their employees' e-mail and Internet use. But experts say the best defense starts with an explicit privacy and usage policy. We tell you why you need one and how to craft it. Go to www.computerworld.com/roi for the story.

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Business leaders should toss out old-school rules for funding IT projects and invest as though their futures depend on it.

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BY PIMM FOX
Web-based supply chains and customer management systems are among the projects smart firms are touting on Wall Street.

bottom line

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Forget negotiating with would-be extortionist hackers, writes Ann Harrison. It never pays off.

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Balance Sheet: Holborn Corp.'s new \$85,500 Web site. Also, see what new ROI stories can be found online.



THERE'S A SCENE IN THE 1940 MUSICAL *Babes in Arms* in which 18-year-old Judy Garland turns to her co-star, a cash-strapped Mickey Rooney, with her one good idea for raising some much-needed money. "Come on, kids, let's put on a show!" Garland sings.

■ In the Internet economy's opening act, plenty of companies applied the same kind of idealistic thinking to their technology investments, particularly Web commerce initiatives. The greater the number of showy bells and whistles on a site, the thinking went, the greater the number of glitz-hungry customers who would show up to click and buy. Sales

and efficiency rates would soar, costs would decline sharply and companies would tap-dance their way to greater profitability. ■ Cut! ■ The script has changed dramatically. Now it's Act 2. Daydreams are out. Discipline is in. Today, smart organizations, such as ING Americas and the U.S. Department of Housing and Urban Development, are applying the same kind of financial scrutiny to technology projects that they apply to other capital-intensive investments, writes Robert L. Scheier in our cover story about calculating and auditing IT project risks and rewards (page 16). The payoff for some firms is savings of millions of dollars per year. ■ Discipline is also a requirement for companies racing to develop Internet and e-mail monitoring software as a means of enforcing privacy policies. As companies expand globally, they must also continually track and implement the regulations of other countries, whose privacy laws, like those of the U.S., are ever-changing (www.computerworld.com/roi). ■ And the script isn't the only thing changing. There's also a chorus line of new and unproven technology players. In this issue, columnist Gus Tai offers tips on how to increase your odds of choosing a rising star (page 30). ■ Also, in an exclusive interview with *Computerworld* Editor in Chief Maryfran Johnson, The Research Board's executive director, Peter Sole, tells of how companies are shifting their measurement focus from simple cost-cutting to concentrate on speed, agility and innovation (page 24). ■ These are just a few of the highlights you'll find in this issue of *ROI*, where bottom-line thinking about technology aims to help you deliver more than short-term showmanship. The goal is a major hit with a very long run.

— Julia King

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TIPS, TACTICS AND TIMELY INFO ABOUT TECHNOLOGY PAYBACK



touchy issue Biometrics' Bubble Bursts

BIG-NAME VENDORS SUCH AS MICROSOFT Corp. and Dell Computer Corp. have zealously endorsed biometric authentication — those keyboard devices that capture a fingerprint scan to identify users before they can get into a system. But don't buy the hype, says Cambridge, Mass., research firm Forrester Research Inc., because this is still early-adopter technology. It will be another three years before user experience and the technology are mature enough for effective implementations, says analyst Frank Prince.

For one thing, the fingerprint readers are at least 25% more expensive than smart-card readers. And both are more expensive than passwords, which don't need special hardware.

It will take until 2003 for the ROI of biometrics to become clear, Prince says. Also, "when those consumers realize that digital fingerprints leave trails that can be used in court, a privacy firestorm will ensue," he says.

How Companies Authenticate Users

Passwords 92%	Certificates 24%
Tokens 26%	Biometrics 4%
Smart cards 24%	Other 10%

Source: Forrester survey of Global 2,500; multiple responses allowed

cybrarians Office Libraries Check Out

WITH SO MUCH INFORMATION AVAILABLE for free on the Internet, is your corporate information center — an office of librarians who buy high-priced content — really worth it?

The answer is an overwhelming yes, according to Outsell Inc., a firm in Burlingame, Calif., that studies the information industry.

Outsell's analysis of data from 4,700 respondents showed that when corporate end users got beneficial data from their information centers, they either boosted revenues by an average of \$801,585, cut costs by an average of \$2,549 or saved an average of 12 hours.

"The lesson here is not that every interaction with the corporate library is a moneymaker or a dollar-saver, but when people do turn to the library to support their decisions, quite often, a lot of money is on the line," says Outsell researcher Mary Corcoran.

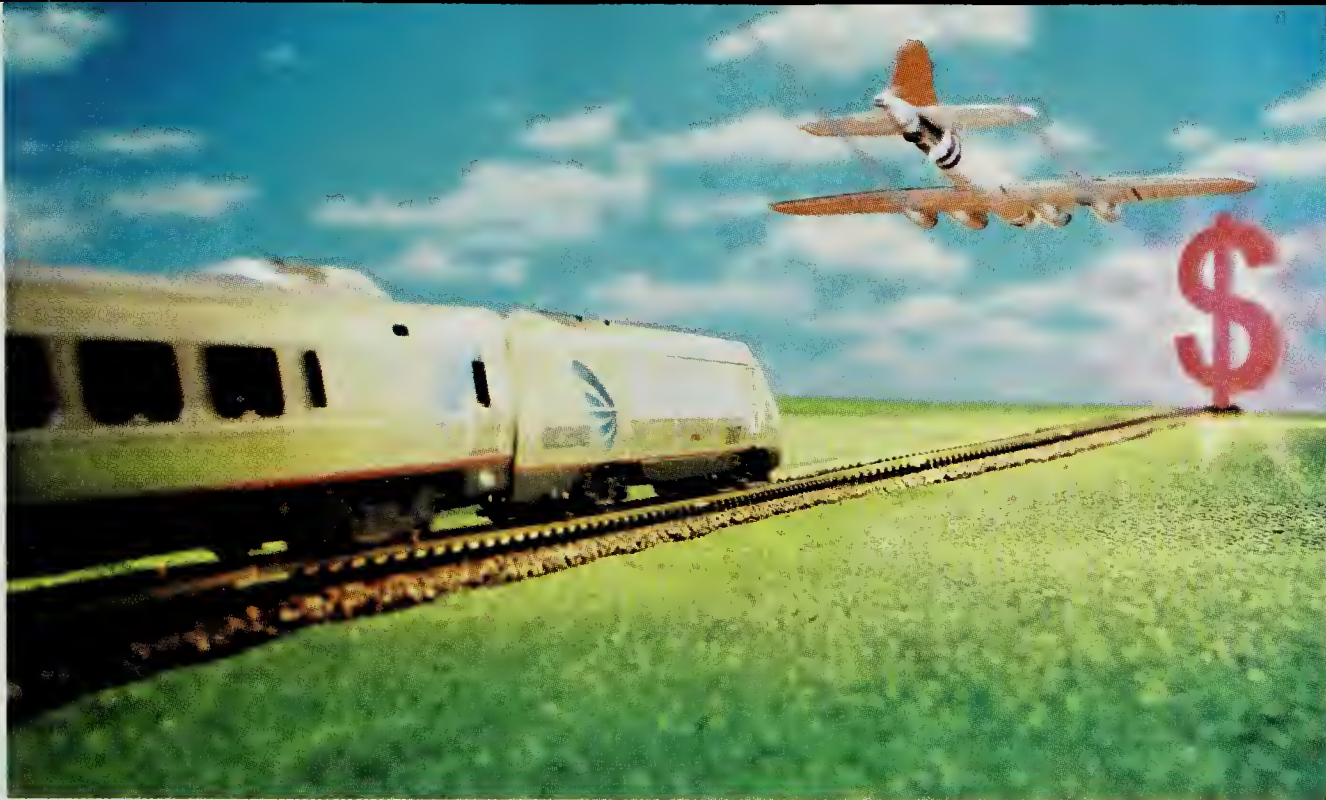
use it or lose it Clicking With Customers

Forget fancy electronic wish lists and e-mail gift reminders. The Web site bells and whistles that online buyers use most often are:

1. Close-up images of products
2. Stock availability information
3. Product comparison reviews
4. A search function
5. A toll-free number for customer service

Source: PricewaterhouseCoopers, Columbus, Ohio
Base: 547 online shoppers

COMPILED BY
MITCH BETTS



dynamic pricing

Railroads Take Cue From Airlines

YOU KNOW ABOUT YIELD MANAGEMENT, even if you don't know the term. It's how sophisticated computer programs allow the airlines to charge different rates for seats (depending on the laws of supply and demand) to optimize revenue. Yield management has already spread to the hotel industry, and according to Mercer Management Consulting Inc., it should become an important force in the railroad industry, too.

Railroads are losing market share to truck competition and have already milked the cost efficiencies from deregulation and mergers, says Gilles Roucolle, a Montreal-based Mercer consultant. "There is a great opportunity for railroads to now shift their attention to grow the revenue line prof-

itably," Roucolle says. And that means revenue-enhancing technologies such as demand forecasting, business intelligence and dynamic pricing.

But pricing isn't the only area that needs improvement. Corporate transportation and logistics managers — the rail industry's biggest customers — still look for the cheapest price on their freight bills, but they're also interested in value-added logistics services, on-time performance and transit time. "The customer equation is getting increasingly complex," Roucolle says.

In the past 20 years, the four Class A railroads have saved \$20 billion through consolidation. They've passed 80% of that on to customers as rate cuts.

talking heads

"The world's total production of information amounts to about **250 megabytes** for each man, woman and child on Earth. It is clear that we are all drowning in a sea of information. The challenge is to learn to swim in that sea, rather than drown in it."

— PETER LYMAN AND HAL R. VARIAN
(www.sims.berkeley.edu/how-much-info/)

10

the list Barriers To Mobile E-Commerce

1 Narrow bandwidth means slow downloads.

2 Small screens with tiny keypads.

3 Batteries run out (especially for color devices with big screens).

4 Dead cells, bad reception and opposition to cellular towers.

5 Lack of standards.

6 Security and privacy.

7 Expensive infrastructure and skimpy revenue.

8 Limited applications. Beyond checking scores, stocks and the weather, what else is there?

9 Distractions. Sometimes you have to look at the road or watch where you're walking.

10 Customers are turned off by the gap between hype and reality.

Source: Giga Information Group Inc., Cambridge, Mass.

network oops

All-Too-Common Security Flaws

JIM WILLIAMS, A FORMER FBI SPECIAL AGENT WHO investigated network break-ins, says he's worried that any downturn in the economy will lead to cut-backs in corporate security. That would be a big mistake, says Williams, now a consultant at S3 Networks LLC, a professional services firm in Oakbrook Terrace, Ill. He cites the following hidden security traps:

- Overdependence on firewalls or other products, without monitoring the network for intrusions.
- Network administrators pulling double duty as security managers. They just don't have the time or skills.
- Lack of companywide security training.
- Overlooking security on telephone switches, voice mail and modem banks.



heads up

The CEO Agenda

Top CEO issues, in order of importance:

1. Increasing profitability
2. Business growth
3. E-commerce
4. Improving IT performance
5. Strategic/cultural change
6. Mergers and acquisitions

Source: Compass America Inc., Reston, Va.; 2000 survey of 412 global CEOs



calling home

Setting Up Shop in Small-Town U.S.A.

LOOKING TO BUILD A NEW CALL CENTER TO handle phone and online customer contacts? Sure, you could do it in popular big cities such as Dallas, Chicago or St. Louis. But consider building in some unlikely places to tap into the labor pool of small-town America, suggests Andy Shapiro, a location consultant at Deloitte & Touche Fantus in New York.

More and more call centers are sprouting up in towns like Stevens Point, Wis.; Marquette, Mich.; and Rockland, Maine. Companies that enter the market early enough "are finding that they can become the 'employer of choice' in these small communities," Shapiro says. The next wave, he adds, may blossom along the U.S. border with Mexico

— from Pharr, Texas, to Sierra Vista, Ariz. — as companies seek access "to one of the few remaining pools of available, low-cost labor in North America."

Research Data Design Inc. recently opened a bilingual call center in Las Cruces, N.M. And Tele-Servicing Innovations Inc. has opened a series of call centers stretching across rural Idaho. The latest one is in a former hardware store on Main Street in Jerome, Idaho, population 7,000.

What percentage of your operating budget is personnel/labor related?

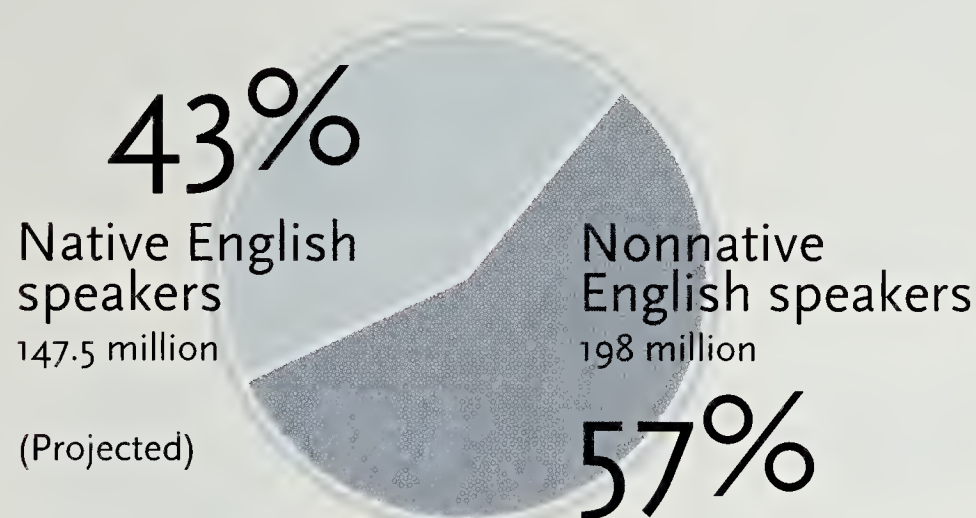
50%-59%	131	26.7%
60%-69%	125	25.5%
70%-79%	122	24.8%
80%-89%	8	16.5%
Over 90%	32	6.5%

(Total responses: 491)

Source: March 2001 survey by Support-Industry.com, Santa Barbara, Calif.

are you ready?

By 2005, more than half of the Internet's users won't be native speakers of English.



Source: Computer Economics Inc., Carlsbad, Calif.

resource alert

Web Sites for Busy Executives

CEO EXPRESS (www.ceoexpress.com): A business portal created for CEOs.

MEANSBUSINESS.COM (www.meansbusiness.com): A unique database of more than 20,000 key ideas from business and management books. Try the free newsletter.

KNOWLEDGE@WHARTON (<http://knowledge.wharton.upenn.edu>): The latest business and management insights from The Wharton School at the University of Pennsylvania.

"THE RAPIDLY CHANGING FACE OF COMPUTING" (www.compaq.com/rcfoc): An eye-opening, accessible newsletter about technology innovations. It's weekly, and it's free.

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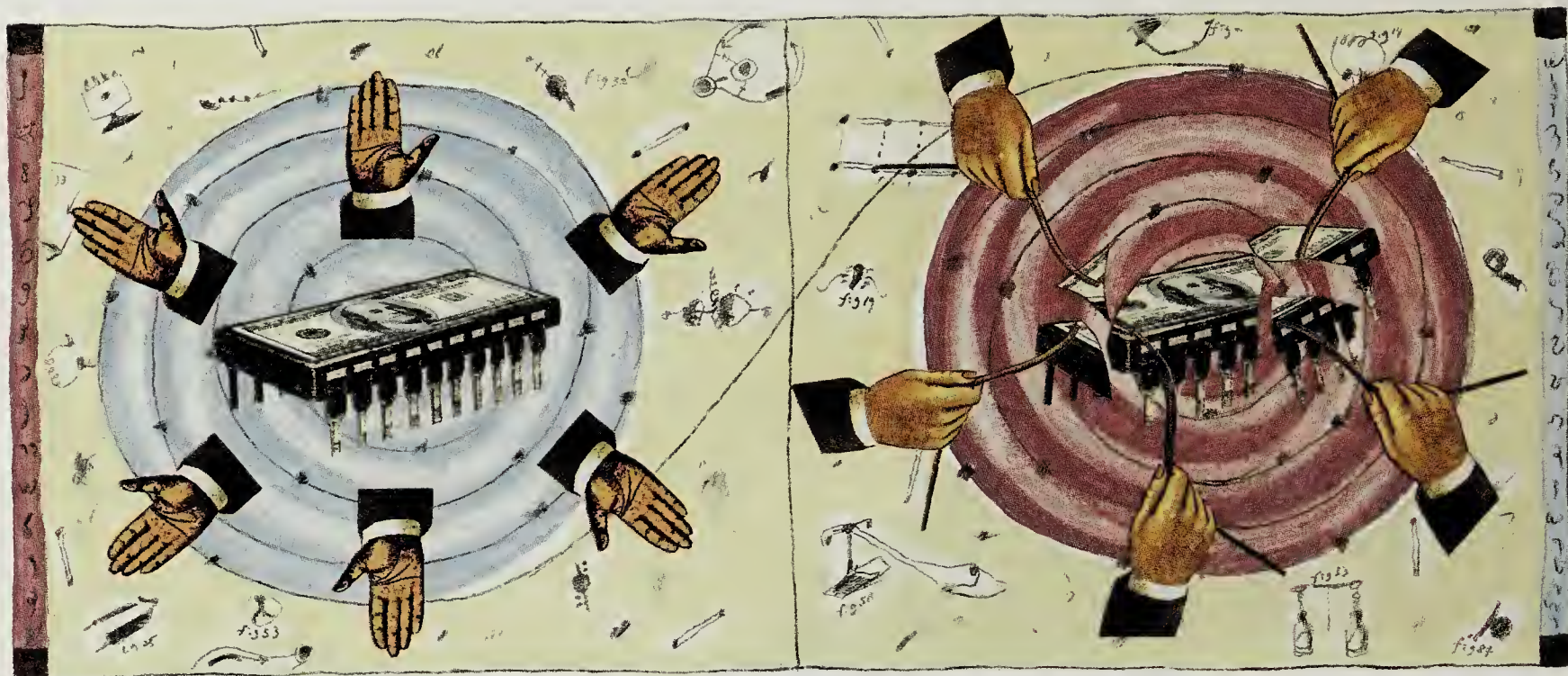
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BY THORNTON A. MAY

Return on Rebellion

A revolt won business a hand in IT spending. Now, the front line is the future

IN FRENCH, “ROI” MEANS “KING.” YET “RETURN ON investment” — that technique designed to allow non-IT people to evaluate the relative worth of IT projects — isn’t a noble or particularly effective undertaking, especially as currently practiced.

Business people have always been interested in how IT dollars actually get spent. A former chairman at a major Detroit auto manufacturer was rumored to have said, “If I had all the money we spent on IT back, I could have bought Toyota and Honda.” So those cavalier “Let them eat cake” days when IT executives delivered what they wanted, when they wanted, independent of business needs, are behind us.

The pendulum has swung from IT as ruling monarch of how money gets spent to IT as puppet to the whim of an unruly mob of business people, blindly giving out everything that’s asked for. Of course, we all know that any resource allocation technique must reflect the needs of the business. Jim Griffin, former director of IT at Geffen Records (part of Interscope Records Inc. in Santa Monica, Calif.) and currently CEO at Cherry Lane Digital LLC, is famous for oversimplifying IT resource allocation to its political base elements. As he puts it, “If your budget is getting cut, it’s because you are having lunch with the wrong people.”

Today, we find our companies on the cusp of making

critical infrastructure investments that will drive the economics of information management and support (or not support) their relationships with suppliers and customers. Painter Jackson Pollock told us, “Each age finds its own technique.” Senior management teams must now develop their own techniques to greenlight IT expenditures.

New techniques of financial behavior are desperately needed in the areas of security, data and privacy protection, where IT investment techniques tend to be reactive. Budget requests are denied until an incident occurs. The bottom line, quite literally, is that we are doing it wrong.

General Electric Co. CEO Jack Welch, speaking to financial analysts recently, explained that despite the softening in the economy, the investment community wouldn’t see “one ounce of slowdown in technology spending” at GE. Rather, he said, “This is the moment to widen the gap.”

One way your company can widen that gap is by looking at not only how much you spend, but also how you make spending decisions. Financial techniques of the past funded technology initiatives by focusing on managing the business rather than creating what the business will become. We invested in technologies that solved today’s problems rather than the problems of tomorrow. The true revolution will occur when we focus on the future instead of the past. **ROI**

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BY PIMM FOX

Wall Street's New Darling

Smart companies are talking up their IT initiatives to win investors

PROFESSIONAL FINANCIERS AND INDIVIDUAL INVESTORS use many measures to decide whether to back a company. Some stare at charts; others read annual reports or talk to senior management.

But increasingly, they're all getting the same message: IT is a key component of a company's value.

"What you are seeing is companies using supply-chain management and cost reduction because it is demonstrable to investors," says Peter Sealey, a professor of marketing at the University of California at Berkeley. That's because using IT to take two or three percentage points out of the cost structure of an auto plant or grocery store chain is something Wall Street analysts understand, he says.

Other companies are following suit. For example, major airlines are touting their technology investments in hopes of being rewarded with stock values similar to those of high-tech companies like Microsoft Corp., Sealey says.

Other brick-and-mortar firms are showcasing their IT as a way of countering dot-coms. "Fortune 500 companies are looking at the incredible multiples these technology-driven companies command on Wall Street and saying, 'We own the assets. We want some of that, too,'" Sealey says.

But such IT showcasing represents a distinct about-face for nontechnology companies, which traditionally have been tight-lipped about their IT strategy and operations.

Fortune 500 companies used to view their IT information as proprietary, but with the success of companies such as Wal-Mart and General Electric, senior management teams now see IT as a part of the value story they must communicate, says one Silicon Valley venture capitalist. Wall Street analysts and investors now want to hear about e-business strategies and what companies are doing with IT to tighten relationships with trading partners, he says.

This emphasis could be a generational shift. "We have the first president of the U.S. with an MBA, and companies have managers who have grown up with technology. They understand the PC and how it changes productivity," says Sealey. "Heck, you even have Jack Welch, GE's CEO, telling Wall Street that IT is instrumental in creating value."

But William Mahoney, executive editor of *Shareholder Value*, a Philadelphia-based investment publication, says he sees corporate trumpeting of IT as part of an overall trend toward more informed investors. "The fact that nontech companies are focusing on technology isn't the issue. The whole notion here is to provide valuable information to the stock market in terms of what drives a company's value," Mahoney says. "The mind-set now is that the more the investment community knows about strategy and key programs — the value drivers — the better."

But playing up IT doesn't always work. "Growing top-line revenue and bottom-line earnings are what matter," he says. "Professional investors have pretty sophisticated methods for predicting a company's future results and aren't moved by billboards or ads that broadcast a company's IT."

Yet despite IT's open-ended role in making firms more competitive, expect to hear more of them trumpeting their IT advances. After all, it beats talking about layoffs. **ROI**



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don't pass these three payback tests take a fall

B Y R O B E R T L . S C H E I E R

QUICK RIDDLE: WHAT'S THE DIFFERENCE between a 250,000-square-foot warehouse in Singapore, an upgrade to your firm's Web site and 10,000 shares in Genentech?

The answer: Nothing. They're all investments you make after weighing their risks and returns. As conditions change, you buy, sell or hold to get the overall rate of return you seek.

Except, of course, when

it comes to computer systems. Executives intimidated by technical mumbo jumbo don't ask tough questions about deadlines, deliverables and costs. Technical staffs don't factor in the costs of long-term training, maintenance and support.

And because information technology is somehow "different," IT projects are rarely audited to see if they deliver the

financial benefits they promised.

Result: When the true costs are added up, as many as 80% of technology projects actually cost more money than they return, says Firoz Dosani, vice president of Mercer Management Consulting Inc. in Atlanta. "It's not done intentionally," he says, "but the reality is, the costs are always underestimated and the benefits

PHOTOGRAPHS BY MARK HOOPER

are always overestimated."



Windows 2000 ADVANTAGE

The Web Magazine for IT Leaders Implementing Windows 2000 and Windows NT with Compaq Services and Solutions

Online this week:

POINT OF VIEW

Agility

As applied to the computer industry, the concept of agility takes on a new meaning. Working together, Compaq and Microsoft are constantly striving to embody that concept.

www.windows2000advantage.com/pov/03-19-01_agility.asp

TECH EDGE

The alleged Active Directory security flaw

It was reported that Microsoft Windows 2000 Active Directory had a security problem relating to the loss of certain group information.

www.windows2000advantage.com/tech_edge/03-12-01_visual_studio.asp

Q & A

Compaq server exec reviews market trends

Hugh Jenkins, director of marketing for Compaq's Industry Standard Server Group, discusses what users expect from their servers.

www.windows2000advantage.com/qa/03-05-01_market_trends.asp

COLUMNS

Defining enterprise class: Is Windows 2000 ready?

Many different elements comprise true enterprise class computing. To determine if Windows 2000 fits this elusive bill, Aberdeen Group's Tom Manter takes a detailed look.

www.windows2000advantage.com/columns/04-02-01_enterprise_class.asp

CASE STUDIES

RadioShack, Starbucks blazing Commerce Server 2000 trail

Before Microsoft's Commerce Server 2000 hit the street, it went through an extended beta testing trial with top-tier companies: RadioShack.com and Starbucks.

www.windows2000advantage.com/case_studies/01-22-01_commerce.asp

COLUMNS >

Don't blame me, I'm only the operating system

Time after time, the failure to communicate business goals and the misuse of information is blamed on the operating system. In his debut column, Chris Koontz examines why these failures occur and makes recommendations for avoiding them.

For the full story, visit: www.windows2000advantage.com/columns/04-23-01_os.asp

Q&A >

Chris Koontz shares his in-the-trenches experience

New Windows 2000 Advantage columnist Chris Koontz is E-business Practice manager, Parks & Company, an e-business and technology consulting firm located in Charlotte, N.C. In this position, he has gained a wealth of first-hand knowledge while working intimately with multiple clients on Microsoft Windows 2000 implementation projects. In this interview, he shares that knowledge with executive editor, Windows2000Advantage, Bruce Hoard.

For the full story, visit: www.windows2000advantage.com/qa/04-23-01_koontz.asp

FEATURES >

Windows 2000 ships with key middleware tools for linking, managing distributed applications

With Windows 2000, Microsoft has for the first time bundled many middleware capabilities into the operating system itself as tightly integrated application services, dramatically increasing their performance, reliability and manageability while cutting costs for customers.

For the full story, visit: www.windows2000advantage.com/features/04-16-01_key_middleware.asp

www.Windows2000Advantage.com/300

CASE STUDY >

Ebone Streaming Media Service Showcases Windows 2000 and Windows Media Services in a Compaq Environment

Streaming media services delivered via the Internet are an increasingly powerful business resource for conducting live meetings, distributing promotional and collateral video, and communicating with employees and staff around the world. This past fall, Ebone, Europe's original and most experienced data-only broadband optical and IP networking company, entered into an agreement with Microsoft and Compaq to debut the Ebone Streaming Media Service across Europe using Microsoft Windows Media Services operating under Windows 2000 on Compaq servers.

Formerly known as GTS Broadband Services, Ebone is using its expansive fiber-optic Internet backbone to offer streaming media services to the 14 countries and 38 cities that its 12,500-mile European network currently serves. Ebone also links more than 25% of all Internet users in Europe and nearly 10% of all global IP routes. The network is directly connected to North America via Ebone's own trans-Atlantic fiber-optic cable, which is expected to be operational in the first half of 2001.

Ebone's end-to-end service, enabled by its partnership with Compaq and Microsoft, removes the customer's need to manage the hardware and software requirements of a complex streaming media network. It does this by merging optimized server technologies with dedicated, in-house technical expertise.

The Compaq-Microsoft partnership has played a key role in enabling Ebone to offer data encoding, asset management, digital rights management, scheduling, publishing management and technology consulting services all from a single source.

For the full story, visit: www.windows2000advantage.com/case_studies/04-23-01_ebone.asp

QUOTE OF THE WEEK >

"The Windows 2000 tools we have, such as BizTalk Server, have allowed us to seamlessly integrate into the Sun Solaris-Oracle solution our fulfillment partner uses."

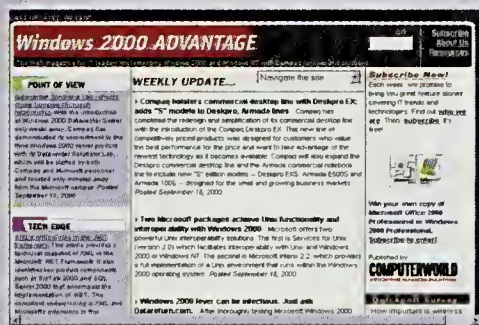
— Mark Sundt
chief technology officer
Haystack Toy Co.

What is Windows 2000 Advantage?

The mission of Windows 2000 Advantage is to become your primary source of timely, useful information for planning and implementing Microsoft Windows 2000 on Compaq solutions and services.

Windows 2000 Advantage is a Web-only magazine because that lets us bring you, the IT leader, great stories that apply to your day-to-day work. We keep you up to date with a weekly e-mail alert so you don't miss a thing.

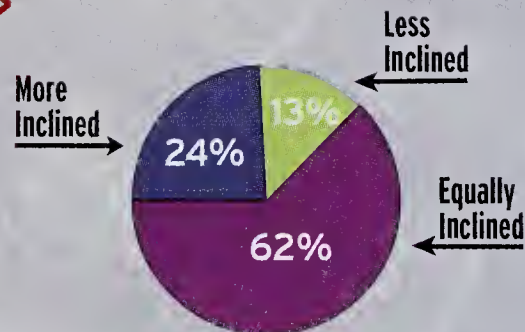
Windows 2000 Advantage is underwritten by Microsoft and Compaq. Its charter is to address the issues that most concern IT managers charged with keeping their companies on top of the latest and best solutions Microsoft and Compaq have to offer. Toward that goal, we offer a wide range of stories including case studies, columns and news to provide you with information you can find anywhere else.



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Rather than trying to calculate specific returns on each project, some companies are saving millions of dollars each year through a portfolio approach to IT spending. They look at their investments in IT — hardware, software and services such as training — as if they were a collection of retirement investments. Some, such as stock in a start-up, are high-risk, high-return. Others, such as U.S. Treasury bonds, are lower-risk, lower-return.

Within an IT budget, an e-commerce project may be a high-risk, high-return investment. Infrastructure upgrades such as buying a faster network are lower-risk, lower-return. This is critical because as you're evaluating all proposed spending at once, it's easier to cut redundant projects or those that don't help the company meet its most pressing business needs.

But moving to portfolio management requires firm backing from top management, a strong program office to manage the process, an energetic and committed team to implement the change and a strong analysis methodology.

"The same kind of business discussion you have in other capital projects [such as building a new factory] works well in IT projects, if you just teach the senior management how to ask the same business questions of IT," says Dosani. "What will be the real cash flow impact? What is the real dollar impact if this initiative is successful? And who is committed to [deliv-

ering] that increase in revenue, increase in margins or decrease in costs from the business side?" These questions should be answered upfront, he says.

ING Americas, an arm of Netherlands-based ING Group NV, a financial services giant with \$386 billion in assets under management at the end of last year, saved \$16 million in 1999, the first year it used the portfolio approach, says Steve Stecher, executive vice president and CIO. The unit, which has annual IT costs of about \$475 million, achieved those savings by eliminating redundant projects and cutting costs out of others.

For example, ING Americas had three competing projects in IT to allow employees to gain access to multiple applications with a single sign-on. These have now been consolidated.

The portfolio management approach also revealed that several units were looking to upgrade similar applications used for making payments to agents and customers. Not only is ING eliminating some of the competing projects, Stecher says, but it's also looking to use the surviving projects as "centers of excellence" that can share their systems and expertise with the rest of the company.

Even more important, the program office played a key role in merging the IT organizations and systems of companies ING Americas has acquired, such as Aetna Financial Services, Aetna International and

Portfolio Management Requirements

- Firm backing from top management
- A strong program office to develop templates, processes and analysis tools
- Risk/reward analysis methodology and enforcement measures

ReliaStar Financial Corp. The approach has been so successful that the parent company is considering using it as a model for all its European operations.

The U.S. Department of Housing and Urban Development (HUD) saved close to \$36 million in fiscal 2000 and 2001 through an enterprisewide, portfolio-based review of projects that could be consolidated, says Debra Stouffer, deputy CIO in the agency's office of IT reform.

Strong project management offices dedicated to IT portfolio management were key for ING and HUD because they generate the cost, benefits and risk information used to assess individual projects.

It was even more critical for Stecher, who had to help merge the IT units of the acquired companies while creating centralized IT services to be shared by the formerly independent business units. He built an enterprise program management office to avoid the chaos that can accompany such ambitious mergers.

In addition to the usual project management required for all IT initiatives, the program office develops templates, processes and tools for companywide use. But Stouffer warns that tools aren't enough. "You need to come up with policies [and] procedures" for assessing risk and enforcing the assessment process, she says.

Very few companies assess both the

Three Critical Business Questions That Must Be Answered Upfront

1. What is the real cash flow impact of the IT project?
2. What is the real dollar impact if the IT project is successful?
3. Who specifically is committed to delivering the increase in revenue, increase in margins or other benefits?

cost and benefit of IT projects, says Chip Gliedman, an analyst at Giga Information Group Inc. in Cambridge, Mass. But it can be done without cumbersome bureaucracies or figuring everything to a statistical degree of accuracy. Merely adding the words "as measured by" to a description of a project's benefits goes a long way, he says. If the goal is to improve the performance of salespeople, says Gliedman, their progress could be measured by the number of calls it takes to close a deal.

Dosani says that to "separate the realizable hard benefit from the fluff," challenge the business unit to be accountable for the alleged project benefits. If productivity rises 10% in a department of 100 people, says Dosani, will the business unit "actually lay off 10 staff, or are you going to assign 10 people . . . to a new activity?" Many project sponsors back off their claims at that point, which is a signal to the business managers, also known as the "portfolio managers," that the project is a riskier investment than first thought. The aim of this exercise is to test specific cost/benefit claims for a new project. After finding a bogus claim, business managers can use the technique to test other claims and then change the project, kill it or proceed for other reasons.

Some companies, such as ING, may develop common metrics for judging all projects. "Whether [the benefit] is in terms of improving operating efficiencies or eliminating positions with automation, we identify those and put in place post-mortem reviews to make sure the benefits identified are actually realized," says Stecher. The corporate program office uses these postmortems to improve criteria for evaluating future projects.

Dosani says most IT managers simply underestimate the costs and overestimate the benefits of their projects. Common pitfalls include failing to account for the

costs of ongoing training, support and changes to processes needed to make a system work — costs that can add up to five to 10 times the original price.

Once the program office has reasonably accurate cost, benefit and risk data, the fun begins: Who gets the most money and the most control over strategic IT systems?

Both ING and HUD use a multitiered system that filters projects up to a high-

level committee made up of business and IT managers. The group meets to review the status of IT projects against the backdrop of changing market conditions, corporate performance and new strategic initiatives. In each case, business managers, not IT managers, play a major, if not final, role in deciding the fate of IT projects.

For the past three years, ING Americas' enterprise program management office has tracked projects costing more



To separate the realizable **hard benefit** from the **fluff**, **challenge the business unit** to be accountable for the alleged project benefits. **Kill it, or move ahead.**



Change is difficult. And the **issues get even thornier** when you're **trying to impose** new discipline on managers used to running their **own shows**.

than \$500,000, using internal consultants and an IT controller's office to evaluate costs, risks and benefits. After review, projects proceed, with a recommendation from the program management office, to a committee of business unit CEOs who make the final call. Projects less than \$500,000 were under the control of business unit CEOs.

Because ING Americas has grown so dramatically, business unit CEOs are getting authority to approve larger projects, says Stecher, although they will still get recommendations from a business unit program management office. Multi-million-dollar projects will still be evaluated by the companywide program management office, for final action by the

CEO and CIO of ING Americas.

Infrastructure-related projects that affect multiple business units are reviewed by a council of CIOs from the businesses, which makes recommendations to a CEO council that has the final say.

At HUD, the initial assessment is done by a team that includes staffers representing procurement, the CIO's office and the chief financial officer. From there, the project goes to a working group of the Technical Advisory Board Executive Committee and then to the executive committee itself. That committee, made up of about 20 managers from both the IT and business units within HUD, meets quarterly to decide the fate of projects.

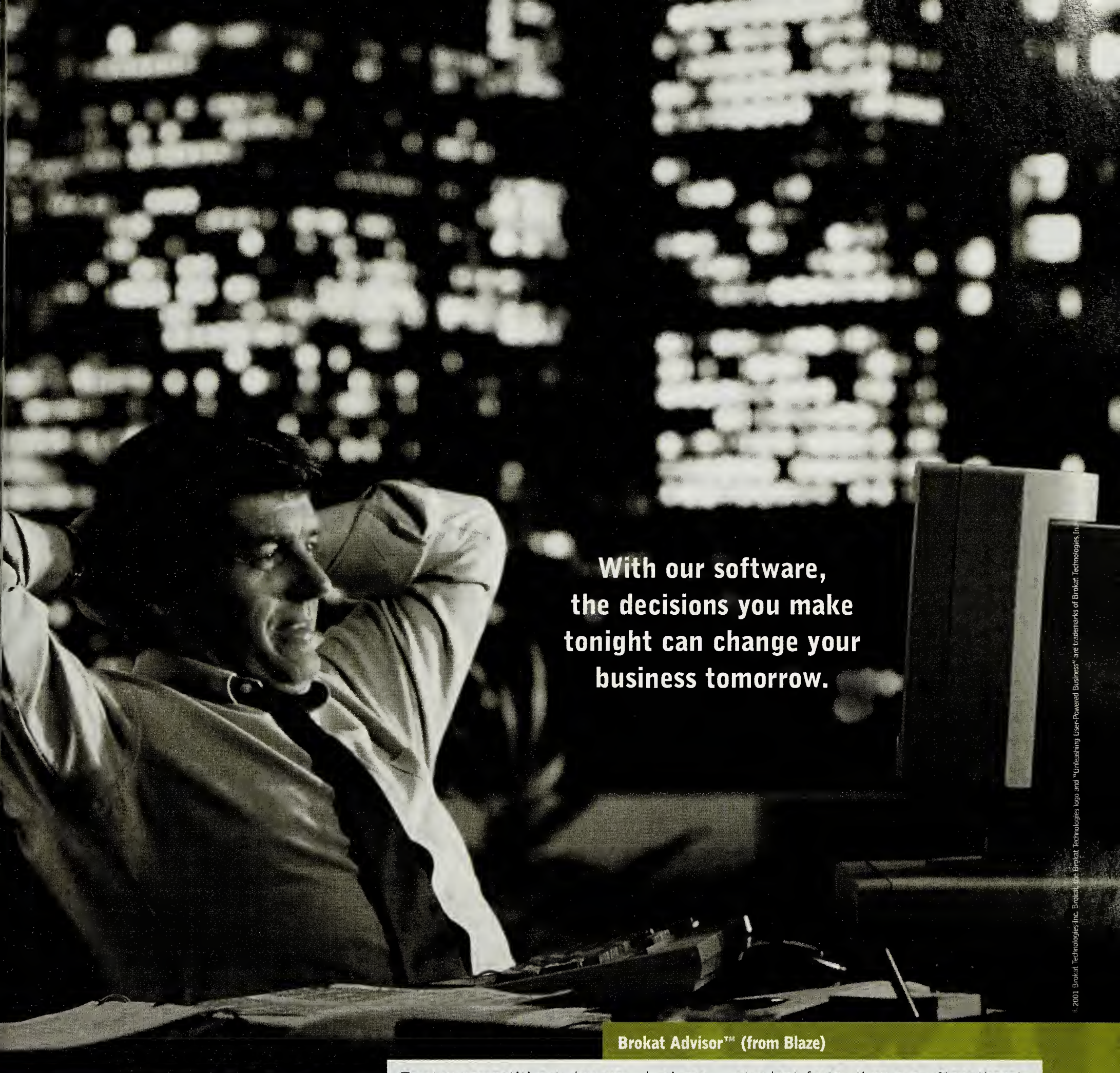
As any manager knows, change is difficult, and senior management has to be ready to enforce the tough decisions. After all, as Stouffer points out, portfolio management "affects who gets what money."

The issues get thornier when you're trying to impose new discipline on managers used to running their own shows. Stecher has eased the way at ING by promoting employees with top IT, project management or change management skills from the firms ING has acquired and making their best tools and processes part of the portfolio management strategy. One example: Stecher plans to adopt a third-party tool used by Aetna to track the resources spent on software development.

Even for the leading adopters, portfolio management is a work in progress. ING is wrestling with how to fast-track critical e-commerce projects while keeping some financial control and ensuring compatibility with other ING systems.

But whatever the challenges, advocates say, well-run portfolio management beats the guesswork returns on questionable projects. Now if they could only do something about those fourth-quarter mutual fund results.

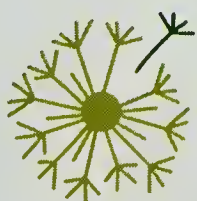
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INSIDE CIO BRAIN THE TRUST

THE RESEARCH BOARD IS THE IT COMMUNITY'S PRIVATE THINK TANK. IN THIS RARE INTERVIEW, CEO PETER SOLE TALKS ABOUT WHAT'S ON THE MINDS OF TOP TECH EXECUTIVES **BY MARYFRAN JOHNSON**

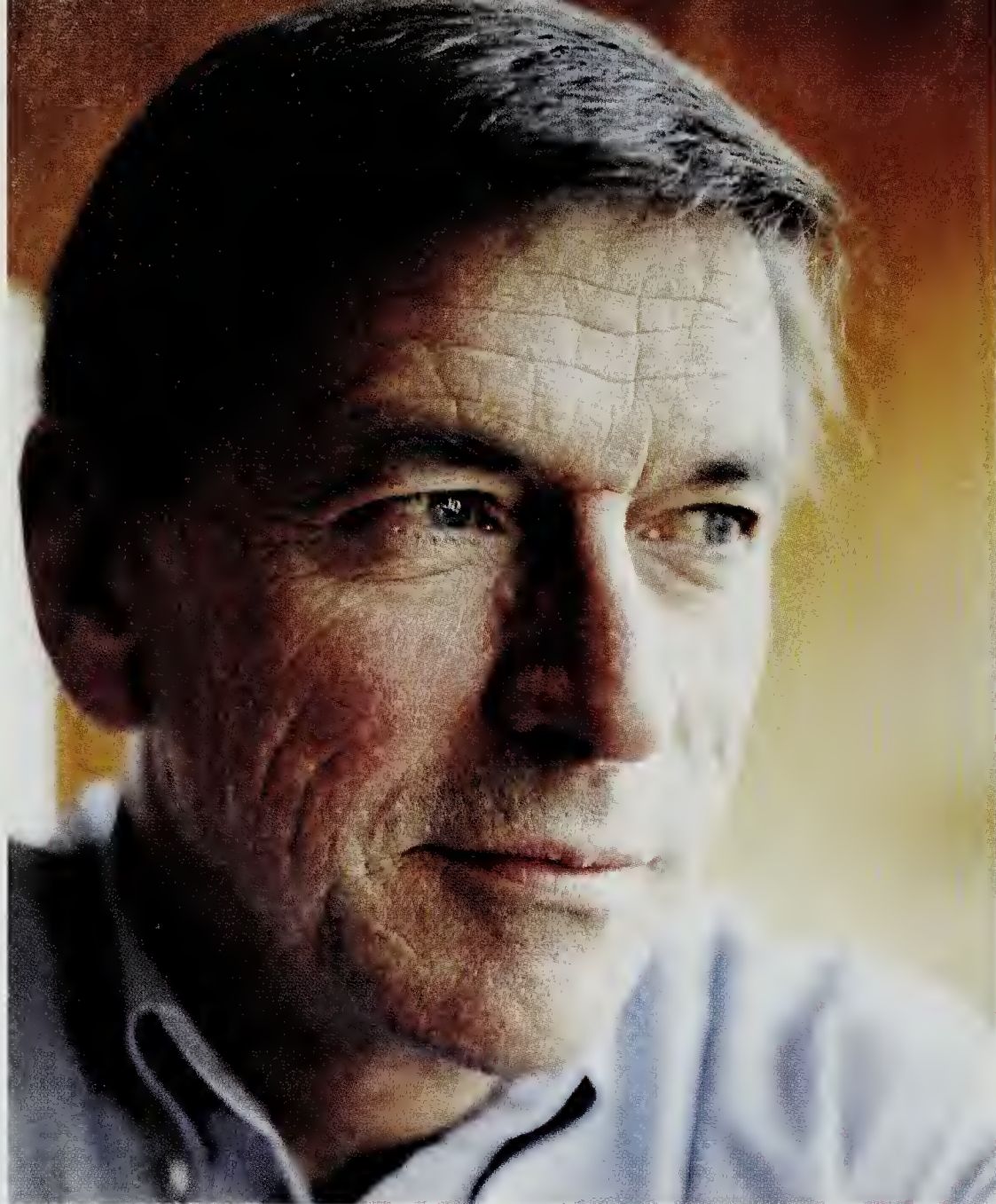
AS CEO OF THE RESEARCH BOARD INC., PETER SOLE COMMANDS the attention of the world's most influential CIOs. The board, which provides research services to the CIOs of 100 leading corporations, is an elite think tank based in New York whose members collectively wield tens of billions of dollars in IT buying power. The board also offers access to computer industry chiefs, who have been known to clear their calendars when summoned.

The board's greatest value, Sole says, is its ability to provide these IT leaders with the "time and space to think, to be challenged and to try out ideas with each other." Sole hails from a CIO background himself, having served as the top technologist at Dixons Group PLC and at Lloyd's, the leading underwriting firm in the

U.K. In 1993, Sole founded Wentworth Research, a CIO research service in the U.K. and Hong Kong. Gartner Inc., which now owns The Research Board, acquired Wentworth in 1998. Sole went on to hold senior executive positions at Gartner, including head of research and advisory services in Europe, the Middle East and Africa and head of executive programs worldwide.

In its 30 years, The Research Board has studiously avoided press attention. But in this conversation with *Computerworld* Editor in Chief Maryfran Johnson, Sole discusses the most pressing challenges confronting CIOs at the world's leading corporations.

PHOTOGRAPHS BY BERND AUERS



A COMPANY'S BRAND AND ITS VALUES ARE GOING TO BE SUPPORTED BY THE QUALITY OF ITS INFORMATION SYSTEMS.

it all to find value and insight?

SOLE: One of the best things a CIO can do is get the smartest, most experienced people around and compare notes. Ask about the quality of their suppliers or their experience with, say, a particular [enterprise resource planning] system. What we've created [at The Research Board] is an environment of trust, which takes years to establish, where very senior people can deal with quite sensitive things. You have to be certain that your confidences won't be abused, and you'll get something back for what you invest.

ROI: What do you see happening to the role of CIOs as they get more deeply involved with strategic business concerns?

SOLE: Many are not IT specialists. They are businesspeople with IT as part of their portfolio. Typically, they are concerned with not just IT, but other responsibilities like logistics, operations, supply chain, e-business initiatives. Some control venture capital funds set up to develop relationships between their organizations and leading-edge companies. They all sit on the executive committee or the board, and without exception they are seen as one of the [senior management] team. Their key responsibilities are making sure their companies get maximum benefit from IT investment.

ROI: How worried are CIOs about their continually evolving roles in e-business?

SOLE: That's a function of whether they're pursuing these things or being pursued by them. The role of the CIO is about risk and involvement; e-business is no different. The best CIOs are always looking for leverage opportunities around new technologies or software. They keep their eye on the bleeding edge, either by being on it or knowing who's on it. Some have little groups with experimental work ongoing; some visit the venture capitalists. They all have a way of keeping a finger on the pulse.

ROI: There is such an overwhelming amount of information available from multiple sources, though. How do CIOs sift through

ROI: What kind of an impact has all the buzz about the New Economy had on your members?

SOLE: Some people talk about the New Economy, and others talk about the "Now" Economy. I think it's really the "Know" Economy. By that I don't just mean instant gratification, but rather the commercial difference between knowing now and knowing later. It's about removing the uncertainty. Most importantly, you want to remove the time lag, which costs you money. In the Know Economy, you want to know what's going on, and you want to be able to react on the spot, ideally in real time.

It's no accident that the currency markets and equity markets operate in real time, where fractions of a second matter. They are setting the standard for business generally.

ROI: Is it fair to say that return on investment concerns are front and center with CIOs these days?

SOLE: That depends on the culture of the company. Some are very ROI-driven, where every business proposal must have a traditional assessment of ROI. This can be very difficult for major efforts like infrastructure [because] trying to estimate the likely return is very difficult. It's like investing funds in new ventures; it's speculative. It's the judgment around the assumptions that matters.

CIOs are still having to justify projects the way they always did, but I do think we've moved away from cost savings as the



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that became the Internet.

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In 1969, BBN was hired by the U.S. government to develop the ARPANet, the forerunner of the Internet.



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classic driver. "Install this, get rid of these people, save money." Those days are gone. What people are much more interested in now is removing friction in the way the company does business . . . sharpening up the supply chain, right from suppliers through to the customer. The big emphasis now is on speed and agility, which of course implies innovation.

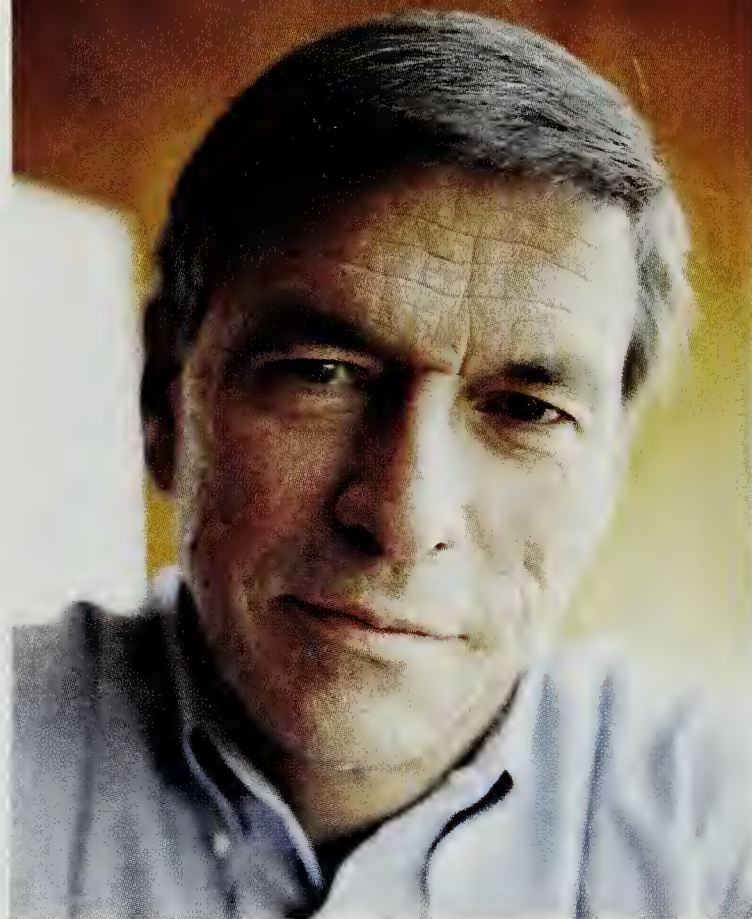
The rules of competition change as industries find new ways of doing things. What is making it possible, of course, is the Internet and open standards. It also means our installed base of systems needs a refurbishment. If you have to wait for information about what's happening in your supply chain or your customer base, the longer it takes to react, the more inefficiency you have in your system.

ROI: Is there such a thing as a system that's too efficient?

SOLE: There can be a downside with efficiency. As we take the slack out, we become more dependent on the system and quality of information in it. It's a creeping dependence. A good example is the supply chain behind the fuel crisis in the U.K. [last year]. It took just four days for the country to come to a grinding halt. The British government had no idea that the supply chain had become so compressed and hence fragile. Once they stopped things up in the supply chain, the whole thing drained out in no time. That can happen to companies. An individual supplier gets into trouble, and if you don't know quickly enough, you're in trouble.

ROI: Does the quality of its IT relate more directly these days to how well a company deals with its customers and suppliers?

SOLE: Increasingly, a company's brand and its values are going to be supported — or detracted from — by the quality of its information systems. If a company is decent, legal, honest and responsive to customers, yet when you phone up no one can tell you where your order is or the right price in your market, or whether you are one of their top customers, then that's inconsistent with the mission and values they're trying to project. The most vivid example of systems being out of line with customer expectations, hence damaging the brand, is the recent presidential election.



IF ALL CIOs INCREASED THEIR FOCUS OF ATTENTION TO MARKETING AND INNOVATION BY 20%, THAT WOULD BE GREAT.

Consumer expectations are being driven by best in class. The fact that you're an Old Economy company doesn't make you immune from these competitive pressures. Everything you do is a marketing statement. Every interaction says something about your brand. Customers are getting fed up with organizations that don't know who they are. What is it Peter Drucker said? "Marketing and innovation are everything — the rest is overhead." If every CIO increased his or her focus of attention to marketing and innovation, say by 20% per annum, that would be great.

ROI: Are Research Board members making technology investments to match best of class or to drive the definition of best in class?

SOLE: They don't sit down and say, "Hey, how do we create best in breed?" They sit down and say, "How do we do this much better for our customers? How do we change the way we do business?" I think the most successful companies are focused on what they're doing and not worrying too much about the other guys. They are — all the time — trying to set the pace. They're trying to make their relationship with the customer the best it can be.

ROI: How are they improving those relationships with customers?

SOLE: I see CIOs very active in webifying their businesses and opening systems up to be accessible to customers and suppliers. So they are all heading in the direction of what I call joined-up computing and real-time systems. What I'm also observing is that there's an awful lot more collaboration within industry groups than there used to be. The airlines collaborate like mad, while still competing. So do many others. All these business-to-business exchanges, which must be sponsored and supported by the CIOs, are another example of collaboration. A significant proportion of Board members are personally involved in the creation of exchanges within their industries. It has required them to create some ground rules for this level of collaboration, but because IT is a collaborative kind of business, that does create a framework of trust. Being part of The Research Board, where trust and collaboration are part of the culture, also helps.

ROI

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Betting on Technology Start-ups

Here's how to improve your odds of picking a winner **BY GUS TAI**

IT'S A DILEMMA EVERY CIO HAS TO CONFRONT sooner or later: stay with your established software vendors, or buy from an unproven start-up. You know what you're going to get with Oracle, SAP or Microsoft, but buying from them can become another step toward getting locked into a single rigid platform. Going with a start-up, on the other hand, can help you control your own destiny in today's open computing environment. Being the first to have the right technology may also give you a sizable competitive advantage.

But in an industry where the failure rate for start-ups hovers around 40%, how does a savvy CIO determine when to go with a start-up and which ones to bet on? Here are a few guidelines:

FOCUS ON PAIN AND PROFITABILITY. If you're going to take a chance on a start-up, the new vendor should be addressing a major pain point that directly translates into profitability.

For example, in an informal CIO survey my company, Trinity Ventures, recently conducted, roughly three quarters of executives listed "improved storage management" as one of their top three priorities. One CIO said that without the right storage system, his company's IT resources wouldn't scale to match the business' expected 60% revenue growth for that year. Given the lack of alternatives from major vendors, this CIO said any system would provide a large enough incremental benefit to offset the risk of working with a start-up.

For a \$1 billion company with a 5% after-tax profit margin, putting the storage framework in place to allow for an additional 1% revenue growth would justify a \$1 million initial investment in a start-up product or service. **DECIDE WHETHER TO BE FIRST.** The next question is, "What is the cost of delaying the decision?" Here, astute CIOs work as part of the senior strat-

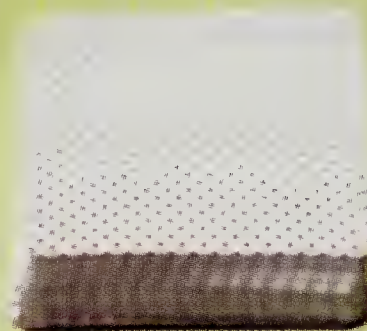
egy team to determine different likely scenarios of market changes and competitive responses.

EVALUATE THE ASSETS. If you decide that the benefits of success are large and the cost of delay is great, you now want to focus on minimizing risks. At this particular start-up, does senior management have the expertise necessary to get the job done? Has the company attracted strong financial backing? Does

it have other customers? Is it willing to craft a contract that has the potential for early wins and early outs? If there are development delays, can you stomach the situation or find alternatives?

If the start-up can't pass this test, you may want to look elsewhere. If it can and you choose to do business with it, be proactive about building a solid relationship.

A key first step is to quickly identify a project manager who has a vested interest in the project's success. You should also be prepared to dedicate internal resources to helping the start-up build the best product for your customers. You'll find that the stronger the relationship, the more influence you'll have in shaping the start-up's long-term strategy, which in turn will lead to long-term benefits for you. **ROI**



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How to Send Crackers Packing

If blackmailers clip your data, show customers you're a step ahead **BY ANN HARRISON**

WHEN INTRUDERS LAST YEAR GAINED ACCESS to 3.7 million credit card numbers in its customer database, Internet retailer Egghead.com Inc. took immediate steps against extortion. The Menlo Park, Calif.-based company issued a press release to signal it wouldn't be cowed into silence, reviewed its security procedures and called in law enforcement authorities.

Unlike a previous incident when a cracker stole 300,000 credit card numbers and tried to extort \$100,000 from CD Universe Inc., an online retailer in Wallingford, Conn., Egghead said it didn't receive blackmail threats. But the company's swift and strategic response to the security breach paid off with customers, including Ryan Russell, IT manager at SecurityFocus.com in San Mateo, Calif. "It's not that big a deal," he says. "If [Egghead] had been trying to cover it up so it would not lose market share, it would have been much worse. I, as a consumer, am much more willing to forgive an honest mistake than a coverup."

Russell, whose company runs the well-known BugTraq mailing list that posts security bugs, says companies tempted to negotiate with blackmailers are usually most concerned about losing credibility and receiving negative publicity.

But negotiating is a bad idea for several reasons, he says. First, victims can't trust the victimizers with whom they are attempting to negotiate. Second, companies can't trust that an extortionist hasn't passed on stolen information. And finally, companies that have credit card data stolen are obliged to report the theft

to the credit card companies, which in turn will cancel the cards and immediately notify users.

Richard Stienon, an analyst at Gartner Inc. in Stamford, Conn., says extortion attempts would decline if companies refused to cooperate with would-be blackmailers and instead seized the opportunity to spin the story their way. Microsoft Corp. did that last year when an intruder potentially accessed source code for its upcoming operating system release. Microsoft first reported that a cracker had been inside its machines for months but later claimed that the intruder had never accessed the actual product code.

By spinning the story, "you're able to demonstrate to customers and shareholders that not only did you have good security before, but you can respond quickly and plug holes as they occur," says Stienon.

People who ferret out security holes in commercial software have also been accused of blackmail. But Russell says there's a vast difference between blackmail and disclosure. Blackmail implies financial gain on the part of the blackmailer, he notes, but the only reward for publishing bugs is recognition.

Russell says the harsh light of publicity used to be the only way to get many vendors to plug known security holes. But now, most software companies are more responsive to bug reports. And most bug hunters now give companies at least several weeks to fix a bug before they make flaws public.

Says Russell, "It's getting to the point where the recognition you get if you don't give vendors enough notice is more negative than positive."

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Coming in the July/August Issue:**Partners in Profit**

A cereal company teams with a toilet tissue maker to share truck space and transportation costs — and saves millions of dollars a year. The U.S. Postal Service buddies up with rival FedEx to expand its delivery footprint. Want to hold corporate hands? Learn the key role IT plays.

Measure for Measure

Not all companies count the same things. Some figure cost into technology ROI calculations. Some don't. Other metrics-obsessed companies, such as Lockheed and Caterpillar, measure, remeasure and then audit everything, including their own metrics data. Find out what's worth counting and what isn't.

Whatever It Takes

Eastman Chemical has outfitted its low-tech customers with PCs and Web access, invested millions in Internet technology start-ups and launched a Web-based logistics and shipping company. The \$5 billion company's e-business czar talks about how these projects are now paying off big-time.

Also Coming in the Next Issue . . .

Why rack up huge capital costs when you can expense hardware and software costs? ROI columnist Gus Tai looks at how.

balance sheet

Little Guy Blows By Industry Giants

COMPARED WITH ITS MUCH larger competitors in the \$24.9 billion reinsurance industry, New York-based Holborn Corp. is a David among Goliaths. Its high-tech slingshot is a year-old, secure, interactive Web site that enables its client base of large insurance companies to electronically download customized underwriting information — something most of Holborn's competitors still don't offer.

"As a reinsurer, we're the middle-man, the broker," says CIO Curt Asbury, "All we have to sell is our expertise and our service." Asbury took a risk on hiring a relatively new but by no means inexperienced consulting company to build and host the Web site, which paid for itself in a little over six months. On an annual basis, Holborn figures it will save \$150,000 or more in reduced costs (see figures below) plus increase customer satisfaction levels substantially. To get more details on the risks and rewards of being on the bleeding edge in a stodgy, technology-adverse industry — as well as interviews with Holborn executives, visit www.computerworld.com/roi and click on Balance Sheet Notes.

— Julia King

The Costs

\$25,000	Consulting fees
\$8,000	Graphics, artwork
\$50,000	Internal personnel costs
\$2,500	Computer and networking hardware

\$85,500 Total development costs

The Benefits

(In annual cost savings)

\$120,000	Personnel and materials
\$12,000	Postage and express mail
\$18,000	Phone and fax

\$150,000 Total annual cost savings

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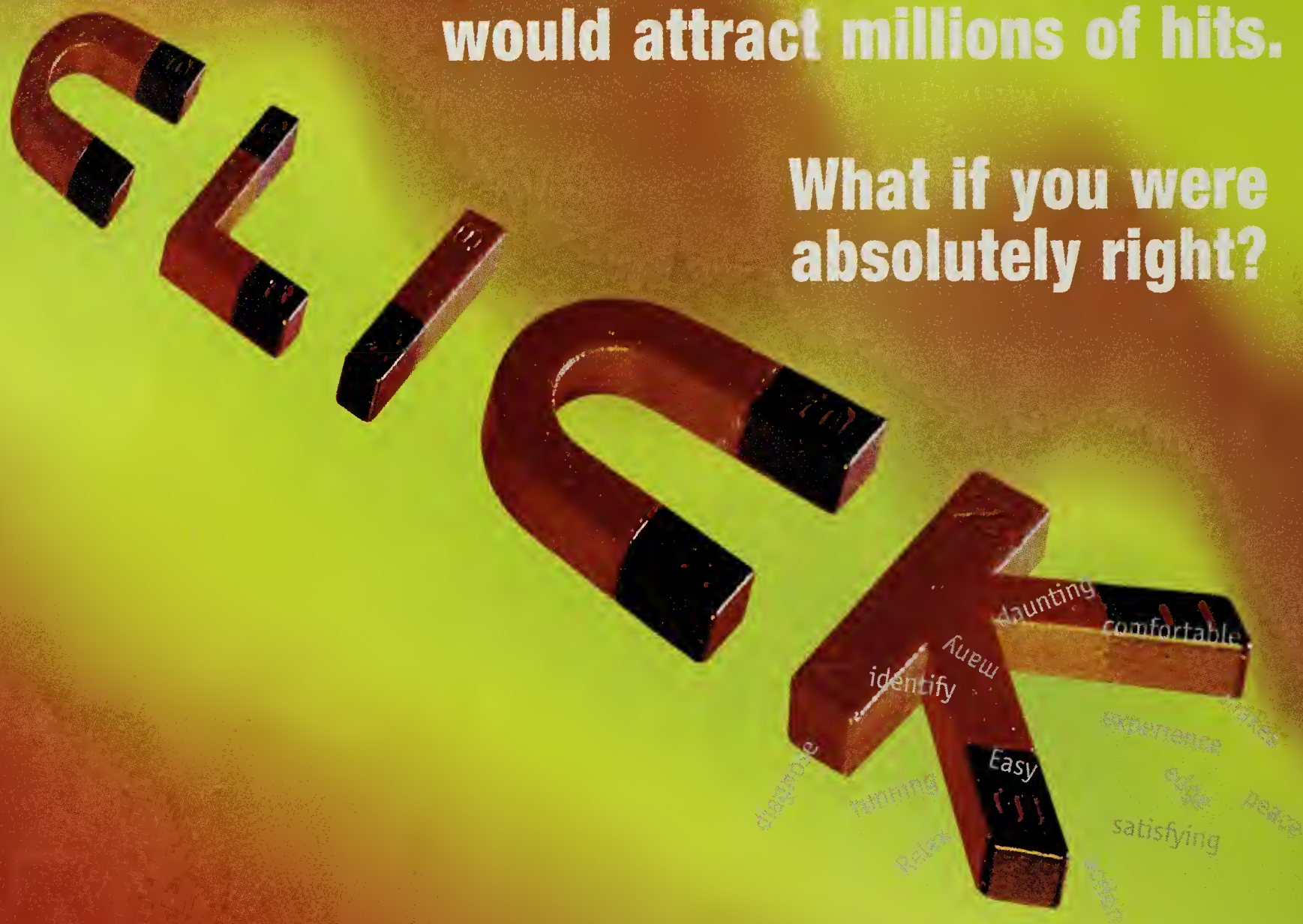
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